

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-10 ISO-00
AID-05 CEA-01 CIAE-00 COME-00 FRB-03 INR-10
NSAE-00 SP-02 STR-07 TRSE-00 LAB-04 SIL-01 OMB-01
GSA-02 INT-05 OIC-02 CTME-00 JUSE-00 IO-13 /117 W
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R 101559Z JUL 78
FM AMEMBASSY VIENNA
TO SECSTATE WASHDC 7118
INFO AMEMBASSY BANGKOK
AMEMBASSY BONN
AMEMBASSY BRASILIA
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
USMISSION GENEVA
AMEMBASSY LA PAZ
AMEMBASSY LIMA
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY MEXICO
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AMEMBASSY MOSCOW
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AMEMBASSY PARIS
AMEMBASSY PRAGUE
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
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BRUSSELS FOR USEC
PARIS FOR OECD

E.O. 11652: N/A
TAGS: EMIN, ILZSG
SUBJECT: EXTRAORDINARY MEETING OF THE INTERNATIONAL LEAD
AND ZINC STUDY GROUP

1. SUMMARY: AT THE REQUEST OF JAPAN AND SEVERAL EUROPEAN ZINC PRODUCING COUNTRIES, THE INTERNATIONAL LEAD AND ZINC STUDY GROUP (ILZSG) MET IN VIENNA JULY 3-6 TO REVIEW THE CONTINUING DEPRESSED STATE OF THE INTERNATIONAL ZINC INDUSTRY AND TO CONSIDER MEASURES TO ALLEVIATE THE INDUSTRY'S CONDITION. THE PRINCIPAL QUESTION UNDER CONSIDERATION WAS AN EC PROPOSAL THAT THE STUDY GROUP RECOMMEND TO GOVERNMENTS THAT THEY URGE THEIR DOMESTIC ZINC PRODUCERS TO REDUCE PRODUCTION. AFTER EXTENSIVE DEBATE, THE EC PROPOSAL WAS REJECTED IN FAVOR OF A STUDY GROUP STATEMENT NOTING THE STUDY GROUP'S HOPE THAT WORLD PRODUCTION WOULD REMAIN AT LEVELS BELOW CONSUMPTION UNTIL EXCESSIVE STOCK LEVELS ARE REDUCED. END SUMMARY.

2. THE APRIL 1978 MEETING OF THE ILZSG STANDING COMMITTEE'S INVITATION TO MEMBER COUNTRIES TO SUBMIT PROPOSALS FOR DEALING WITH THE WORLD ZINC SITUATION SET THE STAGE FOR DELINEATING OPTIONS AVAILABLE TO GROUP AT THIS TIME. AT ONE EXTREME, THE EC SAW THE KEY TO THE PROBLEM AS A NEED TO REDUCE PRODUCTION AND STATED THAT, BASED ON EC GOVERNMENTS' DISCUSSIONS WITH THEIR INDUSTRIES, COMMUNITY PRODUCERS WOULD BE PREPARED TO REDUCE ZINC PRODUCTION IN ORDER TO REDUCE THE BURDEN-SOME LEVEL OF WORLD STOCKS BUT COULD NOT BE EXPECTED TO LIMITED OFFICIAL USE

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DO SO UNILATERALLY. THE EC NOTED THIS RESULT IS EXPECTED TO BE OBTAINED WITHOUT COMPULSORY MEASURES. IT PROPOSED THAT THE GROUP RECOMMEND TO GOVERNMENTS THAT THEY URGE THEIR INDUSTRIES TO PURSUE A SIMILAR COURSE. INDIVIDUAL EC REPS STRESSED PRIVATELY TO U.S. DEL THE DOUBLE SAFEGUARD IN EC RECOMMENDATION, WHICH WAS CONDITION OF FRG AND NETHERLANDS CONCURRENCE AND WHICH THEY FELT WOULD ALSO BE HELPFUL TO U.S. DEL. OF LATTER TWO EC MEMBERS, FRG HAD RESERVATIONS ON INTERVENING WITH OWN PRODUCERS AND NETHERLANDS UNCERTAIN IT COULD PREVAIL ON ITS HIGHLY AGGRESSIVE ZINC PRODUCERS TO COOPERATE.

3. AT THE OTHER EXTREME, AUSTRALIA AND CANADA VIEWED THE PROBLEM AS A LACK OF DEMAND AND A NEED TO IMPROVE CONSUMPTION THROUGH MARKET DEVELOPMENT. CANADA SAW DIFFICULTIES WITH EC RECOMMENDATION FROM POINT OF VIEW OF CANADIAN PERCEPTION OF THE STUDY GROUP'S ROLE AND THE ROLE OF CANADIAN GOVERNMENT IN RELATION TO ITS PRIVATE SECTOR (THE ISSUE OF FEDERAL-PROVINCIAL GOVERNMENT JURISDICTION REGARDING MINERAL MATTERS APPEARS TO BE THE MOST SENSITIVE ASPECT OF LATTER PROBLEM). AUSTRALIA TOOK A POSITION SIMILAR TO THAT OF CANADA, BUT

NOTED THAT AUSTRALIA'S NATURAL ZINC MARKET IN SOUTHEAST ASIA IS EXPANDING AND THAT THEREFORE AUSTRALIAN PRODUCTION IS INCREASING, ALTHOUGH REMAINING AT LEVELS BELOW THAT OF 1973. BOTH AUSTRALIA AND CANADA PRIVATELY TOOK THE POSITION THAT THEIR PRODUCERS AND PRODUCERS IN THE U.S. AND JAPAN ALREADY HAD VOLUNTARILY REDUCED PRODUCTION IN RESPONSE TO DEPRESSED DEMAND SINCE THE 1975 RECESSION WHEREAS THE EUROPEANS HAD ACTUALLY INCREASED PRODUCTION AND THAT IT WAS UP TO THE EUROPEANS TO NOW TAKE VOLUNTARY ACTION TO REDUCE PRODUCTION.

4. JAPAN, WHICH IN ADVANCE OF MEETING HAD SUGGESTED NEED

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TO REDUCE OUTPUT, INCLUDING MINE PRODUCTION, DECLINED TO FOLLOW UP WITH ANY PROPOSAL OTHER THAN THAT GROUP SHOULD UNDERTAKE LONG-TERM FORECAST OF CONSUMPTION. EASTERN EUROPEAN AND LDC PRODUCERS (PERU AND INDIA) EQUIVOCATED ON THE EC PROPOSAL, GIVING IT THEIR GENERAL SUPPORT BUT STATING THAT DUE TO THEIR OWN PARTICULAR CIRCUMSTANCES THEY WOULD NOT BE PREPARED TO REDUCE ZINC PRODUCTION IN THEIR COUNTRIES.

5. IN ACCORDANCE WITH ITS INSTRUCTIONS, THE U.S. DEL TOOK THE POSITION THAT THE STUDY GROUP SHOULD NOT DECIDE ON FORMAL RECOMMENDATIONS TO GOVERNMENTS ON PRODUCTION CUTBACKS UNTIL EACH GOVERNMENT HAD THE OPPORTUNITY TO CAREFULLY REVIEW PROPOSALS FOR SUCH RECOMMENDATIONS. THE U.S. NOTED THE ABSENCE OF DOMESTIC LEGISLATION WHICH WOULD AUTHORIZE THE GOVERNMENT TO DICTATE PRODUCTION POLICIES OF PRIVATE FIRMS AND NOTED THAT, IN ANY CASE, U.S. PRODUCERS HAD REDUCED THEIR PRODUCTION TO ABOUT 65 PERCENT OF CAPACITY DURING THE PAST YEAR AND COULD NOT BE EXPECTED TO MAKE FURTHER CUT-BACKS. FINALLY, THE U.S. POINTED OUT THAT THE INFORMAL TYPE OF PRODUCTION RESTRAINT PROGRAM EXEMPLIFIED BY THE EC PROPOSAL CONCEIVABLY COULD RAISE ANTITRUST QUESTIONS. NOTING THE MILD INDICATIONS OF ZINC INDUSTRY IMPROVEMENT, THE U.S. RECOMMENDED THAT THE STUDY GROUP NOT MAKE FORMAL RECOMMENDATIONS TO GOVERNMENTS AT THIS MEETING, BUT RATHER THAT IT CONTINUE TO MONITOR THE ZINC SITUATION TO DETERMINE IF A TURN-AROUND WOULD OCCUR IN THE MONTHS AHEAD. THE U.S. SUGGESTED THAT THE STUDY GROUP REVIEW THE ZINC SITUATION AT ITS NEXT REGULAR SESSION IN NOVEMBER AND THAT IN THE MEANTIME WE WOULD CONSIDER CAREFULLY ANY CONSTRUCTIVE ACTIONS WHICH OTHER GOVERNMENTS MIGHT TAKE.

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6. WITH NO REAL SUPPORT FOR THE EC PROPOSAL, THE STUDY GROUP WOUND UP ITS EXTRAORDINARY SESSION WITH AGREED CONCLUSIONS AND A PRESS RELEASE DELICATELY BALANCED

BETWEEN GUARDED OPTIMISM AT SIGNS THAT THE WORLD ZINC MARKET MAY BE BOTTOMING OUT AND CAUTION THAT A RETURN TO BUOYANT MARKET CONDITIONS IS NOT IN PROSPECT UNTIL EXISTING STOCKS ARE WORKED DOWN TO MORE MANAGEABLE PROPORTIONS. TO THIS END THE STUDY GROUP TOOK NOTE OF DESIRABILITY OF PRODUCERS CONTINUING TO EXERCISE CAUTION IN THEIR PRODUCTION POLICIES AND EXPRESSED HOPE THAT, WHERE APPROPRIATE, MEMBER GOVERNMENTS WOULD BRING THE STUDY GROUP'S FINDINGS TO THE ATTENTION OF THEIR RESPECTIVE INDUSTRIES.

7. FURTHER, THE STUDY GROUP EXPRESSED SATISFACTION WITH THE CONTINUED BALANCED STATE OF THE LEAD MARKET. IT ALSO AGREED TO CONDUCT IN-DEPTH STUDIES ON TRENDS IN PRODUCTION AND CONSUMPTION WITH THE AIM OF GAINING A BETTER UNDERSTANDING OF THE NATURE OF THE DISPARATE TRENDS IN ZINC CONSUMPTION IN THE VARIOUS ZINC MARKETS. THE STUDY GROUP DECIDED TO HOLD ITS REGULAR 1978 SESSION IN GENEVA NOVEMBER 27-DECEMBER 1, TO BE PRECEDED BY MEETINGS OF ITS STANDING, STATISTIC AND ECONOMIC COMMITTEES ON NOVEMBER 23-24. WOLF

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